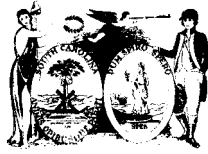


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

March 26, 2002

Mr. John Twitty, Controller
Health Management Resources
101 Grace Drive
Easley, South Carolina 29640-9088

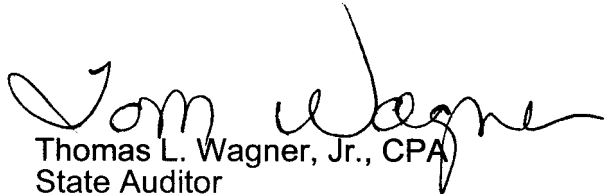
Re: AC# 3-SUN-J8 – Sunny Acres, Inc.

Dear Mr. Twitty:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

SUNNY ACRES, INC.

FORK, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-SUN-J8**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

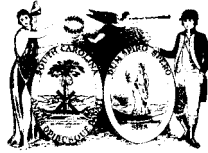
STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 10, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Sunny Acres, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

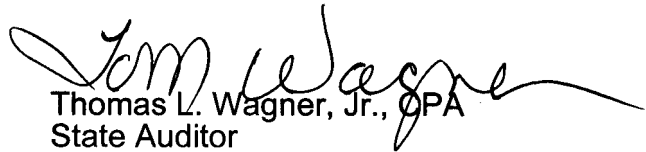
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Sunny Acres, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report and Summary of Costs and Total Patient Days sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Sunny Acres, Inc. dated as of October 1, 1996 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 10, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

SUNNY ACRES, INC.
Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-SUN-J8

| | 10/01/99- <u>09/30/00</u> |
|--------------------------------|------------------------------|
| Interim reimbursement rate (1) | \$92.19 |
| Adjusted reimbursement rate | <u>90.35</u> |
| Decrease in reimbursement rate | \$ <u><u>1.84</u></u> |

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

SUNNY ACRES, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-SUN-J8

| | <u>Incentives</u> | <u>Allowable Cost</u> | <u>Cost Standard</u> | <u>Computed Rate</u> |
|---|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u> | | | | |
| General Services | | \$41.37 | \$50.88 | |
| Dietary | | 8.75 | 9.69 | |
| Laundry/Housekeeping/Maint. | | <u>8.02</u> | <u>8.24</u> | |
| Subtotal | \$ <u>4.82</u> | 58.14 | 68.81 | \$58.14 |
| Administration & Med. Rec. | \$ <u>2.03</u> | <u>9.53</u> | <u>11.56</u> | <u>9.53</u> |
| Subtotal | | 67.67 | <u>\$80.37</u> | 67.67 |
| <u>Costs Not Subject to Standards:</u> | | | | |
| Utilities | | 1.92 | | 1.92 |
| Special Services | | 3.11 | | 3.11 |
| Medical Supplies & Oxygen | | 5.64 | | 5.64 |
| Taxes and Insurance | | .77 | | .77 |
| Legal Fees | | <u>.03</u> | | <u>.03</u> |
| TOTAL | | <u>\$79.14</u> | | 79.14 |
| Inflation Factor (3.00%) | | | | 2.37 |
| Cost of Capital | | | | 6.06 |
| Cost of Capital Limitation | | | | (.36) |
| Profit Incentive (Maximum 3.5% of Allowable Cost) | | | | 2.03 |
| Cost Incentive | | | | 4.82 |
| Effect of \$1.75 Cap on Cost/Profit Incentives | | | | (5.10) |
| CNA Add-On | | | | .75 |
| Nurse Aide Staffing Add-On | | | | <u>.64</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | <u>\$90.35</u> |

SUNNY ACRES, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-SUN-J8

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments | | <u>Adjusted Totals</u> |
|-------------------------------------|--|--------------|---------------|----------------------------|
| | | <u>Debit</u> | <u>Credit</u> | |
| General Services | \$1,667,800 | \$ - | \$ - | \$1,667,800 |
| Dietary | 352,890 | - | - | 352,890 |
| Laundry | 83,898 | - | - | 83,898 |
| Housekeeping | 150,316 | - | - | 150,316 |
| Maintenance | 89,179 | - | - | 89,179 |
| Administration & Medical Records | 456,137 | - | 71,822 (1) | 384,315 |
| Utilities | 77,418 | - | - | 77,418 |
| Special Services | 125,531 | - | - | 125,531 |
| Medical Supplies & Oxygen | 227,296 | - | - | 227,296 |
| Taxes & Insurance | 30,985 | - | - | 30,985 |
| Legal Fees | 1,388 | - | - | 1,388 |
| Cost of Capital | <u>244,460</u> | <u>-</u> | <u>-</u> | <u>244,460</u> |
| Subtotal | 3,507,298 | - | 71,822 | 3,435,476 |
| Ancillary | 91,705 | - | - | 91,705 |

SUNNY ACRES, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-SUN-J8

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments <u>Debit</u> | <u>Credit</u> | <u>Adjusted Totals</u> |
|-----------------------------|--|-----------------------------|-----------------|----------------------------|
| Non-Allowable | <u>438,761</u> | <u>71,822</u> (1) | <u>-</u> | <u>510,583</u> |
| Total Operating Expenses | <u>\$4,037,764</u> | <u>\$71,822</u> | <u>\$71,822</u> | <u>\$4,037,764</u> |
| Total Patient Days | <u>40,318</u> | <u>-</u> | <u>-</u> | <u>40,318</u> |
| TOTAL BEDS | <u>111</u> | | | |

SUNNY ACRES, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-SUN-J8

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|---|-----------------|-----------------|
| 1 | Nonallowable Administration | \$71,822 | \$71,822 |
| | To properly classify salary and fringes State Plan, Attachment 4.19D | | |
| | | | |
| | TOTAL ADJUSTMENTS | <u>\$71,822</u> | <u>\$71,822</u> |

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

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